

Making Toilets More Affordable for Cambodia's Poor Through Microfinance

September 2014

Background

From 2000 to 2012, access to sanitation in Cambodia's rural areas increased by only 1 percent per year (JMP, 2014). By 2012, 75 percent of rural Cambodians lacked access to improved sanitation, and 66 percent practiced open defecation. Though open defecation rates are highest among the poorest rural Cambodians at 86 percent, they are still quite high even among the richest at 32 percent (CSES, 2011). Lack of access to sanitation imposes significant economic and social costs on rural Cambodians, from higher child mortality due to diarrhea, other fecal-borne diseases, to stunted growth of children.

In Cambodia, extensive previous experience with sanitation marketing approaches illustrates there is strong household demand for sanitation and the domestic sanitation market is capable of meeting it. At the same time, challenges remain in reaching low-income households that do not have the cash to meet upfront payment costs to purchase sanitation products.

Action

Over a 13-month period, the Water and Sanitation Program (WSP) of the World Bank worked with a number of partners, including the international non-profit Program for Appropriate Technology in Health (PATH) and International Development Enterprises (iDE), to pilot a sanitation financing program to address the challenge of reaching low-income households with improved sanitation solutions.

Several sanitation finance options were assessed, including saving groups, revolving funds, and supplier loans. A household loan product offered through a Microfinance Institution (MFI) was determined the most scalable and sustainable approach in Cambodia. WSP and partners (PATH and iDE) sought to partner with MFIs with established scale and penetration in rural areas, a commitment to serving poor Cambodians, and an interest in participating in a pilot project.

Through this process, two MFIs—VisionFund Cambodia in Kandal province and KREDIT in Prey Veng province—were engaged in the pilot.



1,994

Total number of loans granted

\$126,125

Total amount of loans disbursed

0

Number of loans in default or with payments 30 days or more past due

\$10,428

Total revenue collected through loan interest

Lessons Learned

1. There is demand for latrines even among poor households when credit is available.
2. MFIs can increase the number of loans offered and reduce loan processing time by dedicating loan officers to the sanitation portfolio.
3. Allowing borrowers to repay loans close to where they live increases the likelihood of interest in this loan product.
4. A close partnership between MFI and a latrine business that has the motivation and capability to produce and deliver on time is needed to maximize commitments from customers and avoid losing latrine orders.
5. A socially-oriented sanitation loan program is financially viable and sustainable given the right support and if loans are managed carefully.

The Pilot

KREDIT enabled villagers to decide whether they wanted to join a group or obtain an individual loan. Loan size offered for both group loans and individual loans was similar ranging between US\$40 and US\$250. The interest rates were 2.9 percent and 3 percent per month for group loan and individual loan (no collateral required), respectively.

VisionFund Cambodia offered group loans through a community bank model with a 2.6-2.8 percent interest rate per month depending on the source of loan funding. Groups of households shared the risk of default.

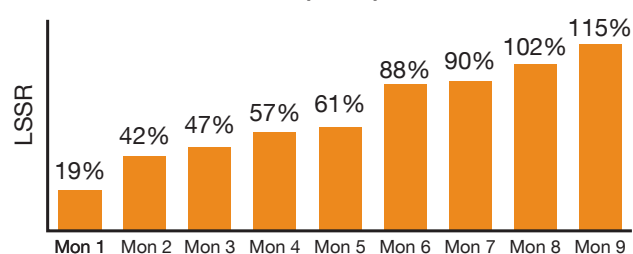
Latrines were sourced from independent latrine businesses, which hired commission-based sales agents responsible for selling latrines to groups of households within a given area. It is noted that the latrine product delivered by the suppliers in the program was the substructure part of the latrine. The shelter for the latrine comes from household's additional investment which could be made of local organic materials or materials available in the market. The diagram below depicts the process of supplying latrines to households under the pilot.



Results

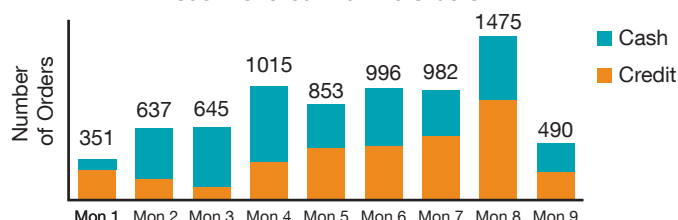
By the end of the pilot, both MFIs achieved loan self-sufficiency ratios greater than 100 percent, indicating that costs of offering sanitation loans can be covered by the loan interest revenue.

Average Weight Loan-Self-Sufficiency Ratio (LSSR)



Because many households, especially those with lower income levels, cite an inability to pay the up-front costs of a latrine as a major barrier to accessing improved sanitation, purchasing a latrine on credit may help increase sanitation uptake rates. It is observed that, overtime, credit orders increased significantly. Additionally, the sanitation loan programs were poor inclusive, mainly due to group loans and no collateral requirements and as a result better able to serve the poor as compared with the normal loans of the MFIs.

Cash vs. Credit Latrine Orders



Though many rural Cambodian households lack improved sanitation, there is considerable demand for latrines, especially when offered on credit. Small loans issued by MFIs to either individuals or groups of households can be a viable way to increase uptake of improved sanitation in rural areas, including among the poor. If such a program is planned, tested, and scaled up carefully, MFIs with good lending practices could reasonably expect low default rates and high loan self-sufficiency, while supporting their social mission and widening their customer base.